1999 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2000

EGYPT

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
Income, Production and Employment:				
GDP (Current Prices)	76.2	83.8	89.7	
Real GDP Growth (pct) 2/	5.3	5.7	6.0	
GDP by Sector:				
Agriculture	17.6	17.5	17.4	
Manufacturing	31.8	32.2	31.5	
Services	42.6	42.3	43.3	
Government	7.8	7.8	7.9	
Per Capita GDP (US$)	1,260	1,310	1,406	
Labor Force (millions)	17.36	17.0	18.3	
Unemployment Rate (pct)	8.8	8.9	8.3	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	15.1	12.3	11.4	
Consumer Price Inflation (period average)	6.2	4.0	2.9	
Exchange Rate (LE/US$ annual average)				
Market Rate	3.39	3.39	3.396	
Balance of Payments and Trade:				
Total Exports FOB 3/	5.345	5.128	4.445	
Exports to U.S. 3/	0.694	0.698	0.660	5/
Total Imports FOB 3/	15.565	16.899	16.969	
Imports from U.S. 3/	3.840	3.060	3.000	5/
Trade Balance 3/	-10.2	-11.7	-12.5	
Balance with U.S.	-3.146	-2.361	-2.360	5/
External Public Debt	28.8	28.1	28.2	
Fiscal Balance/GDP (pct)	-0.9	-1.0	-1.3	
Current Account Balance/GDP (pct)	0.7	-3.4	-1.9	
Debt Service Payments Ratio 4/	16.0	13.0	11.0	
Gold and Foreign Exchange Reserves	20.2	20.3	18.0	
Aid from U.S.	2.115	2.115	2.075	

1/ Statistics are based on Egypt's fiscal year starting July 1 and ending June 30.
2/ Percentage changes calculated in local currency.
3/ Merchandise trade.
4/ Ratio of external debt service to current account receipts.
5/ Estimates.

1. General policy framework

Egypt, with a population of 67 million and a per capita income of USD 1,400, is a large developing country. Its market economy is segmented into the state sector (estimated at 30 percent of GDP), and the private sector (70 percent of GDP). The Ministry of Finance estimates the informal sector is equivalent to 25 percent of the GDP. Foreign assistance has funded a significant portion of Egypt's infrastructure development. The role of private investment in key infrastructure areas has increased over the last year.

Egypt's economic stabilization program that started in 1991 has improved most macroeconomic and trade indicators. Since 1991, real GDP growth has increased from 2 percent to 5 percent. Inflation decreased from 20 to 3 percent, foreign currency reserves increased from 7 to 17 billion dollars and the budget deficit decreased from 17 to around 1 percent of GDP. Tariff protection has been reduced with most favored nation (MFN) duties, which averaged 42 percent in 1991 now averaging 27 percent. Most non-tariff barriers have been removed.

Services make up the largest and fastest growing sector of the Egyptian economy, accounting for 58 percent of GDP (including government services). Tourism, the Suez Canal, trade, and banking are the largest service sub-sectors. Egypt exports primarily petroleum, light manufactures (textiles) and agricultural products, it imports machinery, refined oil products, and food products. Since 1995 Egypt's exports have remained at around 5 billion dollars while imports increased from 13 to 17 billion dollars.

In 1997 and 1998 Egypt's key sources of foreign exchange (tourism, Suez Canal receipts, worker remittance and petroleum exports) suffered external shocks. As a result Egypt's current account went from a small surplus to a 2.5 billion-dollar deficit. The decline in foreign exchange earnings may have played a role in the government's decision to issue a trade decree in November 1998, requiring that consumer goods be imported directly from the country of origin. In November 1999, the GOE amended this trade measure thus allowing consumer goods to be sourced from manufacturers' regional branches or distribution centers and easing standards for providing the origin of goods. In 1999 some of the sources of foreign exchange earnings started to recover with tourist visitor numbers at record levels, Suez Canal receipts stabilizing and petroleum prices rising.

The GOE's expenditures were around 22 billion dollars in FY 1998/99, some 29 percent of GDP, with the fiscal deficit around 1 percent of GDP. The deficit was financed through issuance of government securities and foreign assistance. Fiscal revenues are mainly comprised of tax revenue, including income tax receipts and customs tariffs. Egypt has plans to widen the base of the sales tax by including wholesale and retail trade, although implementation has been delayed. Delays in completing tax reform may have wider implications for further reductions in tariffs, given the importance of customs revenues in overall government revenue.

The GOE enacted Law 8 in 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Increasing the transparency of government regulations and strengthening intellectual property rights protection would encourage further foreign investment.

The Central Bank of Egypt consults with the ministry of finance and the ministry of economy and foreign trade, but it is an autonomous body and bears the ultimate responsibility for defining Egypt's monetary policy. Historically movements in treasury bill rates have provided a better indication of central bank policy than the discount rate.

In October 1999 President Mubarak appointed a new cabinet which has provided new impetus to Egypt's economic reform program. The new Prime Minister Atef Ebeid, who was previously in charge of the privatization program, is expected to increase the momentum of privatization. The merger of the ministry of economy with foreign trade under Youssef Boutros Ghali is likely to have a similar effect on trade and investment.

2. Exchange rate policy

Law 38 of 1994 and the executive regulations issued under Ministerial Decree 331 of 1994 regulate foreign exchange operations in Egypt. Responsibility for exchange rate policy lies with the government of Egypt and is administered by the Central Bank of Egypt in consultation with the minister of economy and foreign trade.

Central bank foreign exchange reserves stood at 17.4 billion dollars in August 1999. The GOE notes officially that the free market guides the rates of exchange set by the Central Bank of Egypt, other approved banks, and dealers. However, the central bank appears to actively monitor the exchange rate in order to assure the Egyptian pound's stability. According to the Central Bank of Egypt, the value of the Egyptian pound averaged around le 3.39 per USD in 1999. Rates offered by major commercial banks reflected only a modest spread over this average, in the range of 3.4 to 3.41 LE/USD. The rates offered by bureau of exchange, which account for approximately 6 percent to 10 percent of daily foreign exchange transactions, ranged up to 3 percent above the standard commercial rate.

The intervention currency is the US dollar. There are no exchange or currency controls and foreign currency transfers are in principle unrestricted. In the last year, however, firms reported frequent delays in the processing of their requests to convert Egyptian pounds to foreign currency. Exports in recent years may have been affected by the real appreciation of the Egyptian pound since economic reform was initiated in 1991.

3. Structural policies

In general, prices for most products are market based, although the GOE provides direct and indirect subsidies on key consumer goods to benefit Egypt's poor (including bread, which stimulates the demand for U.S. wheat). Pharmaceutical prices are set by the Ministry of Health. Railway fares, electricity, petroleum products and natural gas prices are gradually being deregulated to reflect actual costs.

Under its trade liberalization program and in accordance with its WTO obligations, Egypt has made progress in reducing its tariffs. The maximum rate for WTO-bound tariffs was recently reduced from 50 percent to 40 percent. Many cases of high tariffs persist, however, such as those affecting the import of automobiles, automobile spare parts and U.S. poultry products. Egypt does not maintain export quotes or require pre-approval for imports. It is in the process of implementing the harmonized system of classification. Although the government recognizes the need to eliminate procedural barriers to trade, businesses report that red tape and cumbersome bureaucracy remain significant problems.

The GOE instituted a general sales tax (GST) in 1991 and is now moving towards adoption of a value-added tax. Since 1991 taxes on certain consumer goods not covered by the GST (alcoholic and soft drinks, tobacco and petroleum products) were raised and converted to ad valorem taxes (VAT). Other reforms included lowering marginal tax rates, simplifying the tax rate structure, and improving administration of tax policy. Despite such efforts, businesses consistently note the need for reform and modernization of Egypt's tax system, describing its current administration as cumbersome and frequently unpredictable.

4. Debt management policies

In early 1991, official creditors in the Paris club agreed to reduce by 50 percent the net present value of Egypt's official debt, phased in three tranches of 15, 15 and 20 percent. The IMF conditioned release of the three tranches on successful review of Egypt's reform program. At about the same time, the United States forgave USD 6.8 billion of high-interest military debt. As a result, Egypt's total outstanding debt has declined to about USD 28 billion, and the debt service ratio fell from nearly 50 percent in 1988 to 13 percent in 1997/98.

In 1996, Egypt began a new round of discussions with the IMF. In October 1996, the two sides agreed to an ambitious package of structural reform measures through 1998, and the IMF approved a USD 291 million precautionary stand-by agreement for Egypt. This agreement paved the way for the release of the final USD 4.2 billion tranche of Paris club relief, reducing Egypt's annual debt servicing burden by USD 350 million. In September 1998, Egypt declared that it would not sign a third program with the IMF. The relationship with the fund and the GOE has taken a consultative aspect.

5. Aid

The United States is Egypt's largest provider of foreign assistance, having committed USD 2.1 billion in FY 2000. The assistance package is divided into economic support funds (USD 735 million) and military assistance (USD 1.3 billion). U.S. economic support assistance levels to

Egypt will be gradually reduced over the next several years. Both governments are committed to working together to maximize the positive impact assistance has on Egypt's transition to a private-sector-led, export-oriented economy. A significant portion of the funds in both assistance categories are used by Egypt to acquire U.S. goods and services. For example, around USD 200 million of exports were financed in FY 1999 through USAID's commodity import program. An additional USD 200 million was used to finance technical assistance and services. The department of agriculture, in separate programs (GSM 102), allocated in FY 1999 about USD 200 million in U.S. exports to Egypt.

6. Significant barriers to U.S. exports

Egypt became a member of the world trade organization (WTO) in June 1995. Trade would be facilitated by increased transparency and improved notification to the WTO and major trading partners of changes the GOE makes to bring Egypt's trade regime into WTO compliance.

Import barriers: Egypt does not require licenses. For food and non-food imports with a shelf life, the government mandates that they should not exceed half the shelf life at time of entry into Egypt. The importation of commodities manufactured using ozone-depleting chemicals is prohibited.

Services barriers: the Egyptian government runs many service industries. Recent government policies allow private sector involvement in ports, maritime activities and airports, an opening that has spurred significant interest and activity in the private sector. Private firms dominate advertising, services. Egypt modified laws and regulations in accordance with its WTO financial services commitments.

Banking: existing foreign bank branches have been permitted to conduct local currency operations since 1993. Two U.S. bank branches have licensed to do so. In June 1996, the parliament passed a bill amending the banking law and allowing foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In another significant development, Law 155 was passed in June 1998. It provided the constitutional basis needed to permit the privatization of the four public sector banks. (Privatizing publicly held banks will a complex and politically sensitive undertaking; the government has not yet named a public-sector bank for privatization.) In a move to eliminate a tax loophole and orient banks' portfolio managers to more economically productive investments, the government passed the Income Tax Law 5 of 1998. This law eliminated a loophole that allowed banks and financial institutions to deduct interest earned on government securities, as well as to deduct the interest paid on funds borrowed to purchase such securities.

Securities: international brokers are permitted to operate in the Egyptian stock market. Several U.S. and European firms have established operations or purchased stakes in brokerage firms.

Insurance: the passage of a new insurance law in June 1998 marked a potentially significant milestone for the sector and the national economy. The law permits foreign insurance companies to own up to 100 percent of Egyptian insurance firms. In 1999 the GOE approved the first application by a U.S. firm for majority ownership. Previously, foreign ownership was restricted to a minority stake. The GOE appears more receptive to applications to establish new operations in the relatively undeveloped area of life insurance than in the non-life sectors. Four public-sector companies (one of which is a reinsurance company) dominate the insurance market. There are five private sector insurance companies, three of which are joint ventures with U.S. firms. Two of the joint ventures are operating in the free zones.

Telecommunications: in October 1999 a new ministry of communications and information technology was created. The government had previously converted a government authority into Telcom Egypt, established a regulatory board for telecommunications and spun off responsibility for internet, cellular telephone and pay telephone to the private sector. In recent years Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. Telcom Egypt, the nation's fixed-line monopoly, announced in November that it would cut its international long distance rates by 25 percent. The government has indicated that it plans to sell 20 percent of Telcom Egypt in the first quarter of 2000. The mobile system has expanded significantly in the last four years as the result of increased GSM capacity. In 1996 a government-owned firm (Arento) was created with an initial GSM capacity of 90,000 lines. The establishment of two private sector companies in 1998 (Mobinil and Misrphone) further boosted the GSM system by 130,000 lines. Some GOE officials have expressed interest in the WTO basic telecommunications agreement and the international telecommunications agreement.

Maritime and air transportation: maritime transport lines and services operated until recently as government monopolies. Law 22 of 1998 opened these areas to the private sector. This law permits the establishment of specialized ports on a build-own-operated basis. Under the new business environment created by Law 22, the private sector is becoming increasingly involved in container handling. In addition, Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights, although the national carrier remains, by far, the dominant player in the sector. Private firms have also become active in airport construction.

Standards, testing, labeling and certification: while Egypt has decreased tariffs and bans on the importation of many products, other non-tariff barriers have increased. Items removed from the ban list were added to a list of commodities requiring inspection for quality control before customs clearance. This list now comprises 131 categories of items, including meat, fruits, vegetables, spare parts, construction products, electronic devices, appliances, transformers, household appliances, and many consumer goods. Agricultural commodities have been increasingly subject to quarantine inspection, so much so that some importers have begun arranging inspection visits in the U.S. to facilitate Egyptian customs clearance. Product specification also can be a barrier to trade. For example, Egyptian standard number 1522 of 1991 concerning inspection of imported frozen meat set an unattainable maximum 7 percent content of fat. There is a lack of clear standards for determining if processing is done according to Islamic rule, which restricts U.S. poultry parts exports.

Imported goods must be marked and labeled in Arabic with the brand and type of the product, country of origin, date of production and expiry date, and any special requirements for transportation and handling of the product. An Arabic language catalog must accompany imported tools, machines and equipment. The government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates. Many of these standards violate the WTO agreement which prohibits "nontechnical barriers to trade" (NTB). Only bona fide health and safety standards based on scientific evidence are mandatory under WTO; all other standards must be voluntary.

Investment barriers: the General Authority for Free Zones and Investment (GAFI) which was placed under the Ministry of Economy and Foreign Trade in October has sole responsibility for regulating foreign investment. The GOE implemented Law 8 of 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Egypt signed a bilateral investment treaty with the United States in an investment guarantee agreement which extends political risk insurance (via OPIC) for American private investment. In addition, the GOE is a signatory of the international convention for the settlement of investment disputes.

Government procurement: the GOE passed a new government procurement law this year (Law 89 of 1998) in an effort to increase transparency, assure equal opportunity among bidders and protect contractor rights. The law mandates that: a bid may not be transformed into a tender (a main defect of prior law dating from 1983); decisions on bids are to be explained in writing; and more weight will be accorded to technical considerations in awarding contracts. The law also requires the immediate return of bid bonds and other guarantees once the tender is awarded. Egypt is not a signatory to the WTO government procurement agreement.

Customs procedures: in 1993, Egypt adopted the harmonized system of customs classification. Tariff valuation is calculated from the so-called "Egyptian selling price" which is based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have a value no lower than that noted on the invoice from the first shipment. As a result of this presumption of increasing prices and the belief that under-invoicing is widely practiced, customs officials routinely and arbitrarily increase invoice values from 10-30 percent for customs valuation purposes. Multiplication of authorities for commodity clearance and inspection increases the complexity and costs of exporting to Egypt. As customs procedures are becoming increasingly automated through the use of computers, customs officials will no longer be able to exercise such subjective judgment over valuation of imports. The WTO customs valuation agreement comes into force for Egypt on July 1, 2000.

7. Export subsidies

At present Egypt has no direct export subsidies. Certain exporting industries may benefit from duty exemptions on imported inputs (if released under the temporary release system) or receive rebates on duties paid on imported inputs at the time of export of the final product (if released under the drawback system). Under its commitments to the World Bank, the Egyptian government has increased energy and cotton procurement prices and has abolished privileges enjoyed by public sector enterprises (subsidized inputs, credit facilities, reduced energy prices and preferential custom rates), thus reducing the indirect subsidization of exports.

8. Protection of U.S. intellectual property

Watch list designation: due primarily to exclusion of pharmaceutical products from patentability the United States Trade Representative placed Egypt on a "priority watch list" in April 1997, and retained this designation in 1998 and 1999. Egypt is a signatory to the GATT TRIPs agreement, the Bern Copyright Convention, the Paris Patent Convention, the Paris Convention for Protection of Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for the Classification of Goods and Services. The GOE has several WTO TRIPs obligations that came into force on January 1, 2000.

Patents: the existing Egyptian patent law (Law 132 of 1949) provides protection below international standards. It contains overly broad compulsory licensing provisions and excludes from patentability substances prepared or produced by chemical processes if such products are intended for food or medicine. The patent term is 15 years from the application filing date, compared with the international standards of 20 years. A 5-year renewal may be obtained only if the invention is of special importance and has not been adequately worked to compensate patent holders for their efforts and expenses. Compulsory licenses, which limit the effectiveness of patent protection, are granted if a patent is not worked in Egypt within three years or is worked inadequately.

Egypt has drafted, but not passed, legislation designed to improve patent protection by providing product versus process patents, increasing the protection period to 20 years, and offering fair prerequisites for compulsory licensing. However, the government may opt to delay implementation of the legislation, once passed, to take advantage of the transition period through 2005 granted to certain developing countries under the WTO TRIPs agreement.

Copyrights: Egypt has strengthened since 1997 the enforcement of copyright protection laws already on the books, although enforcement remains erratic and inadequate. Law 29 of 1994 amended the copyright law (Law 38 of 1992) to ensure that computer software was afforded protection as a literary work, allowing it a 50-year protection term. Law 38 of 1992, an amendment to the out-of-date 1954 copyright law, increased penalties against piracy and provided specific protection to computer software. A 1994 decree also clarified rental and public performance rights, protection for sound recordings, and the definition of personal use.

Trademarks: Egypt is considering completely revising its laws in order to enhance significantly legal protection for trademarks and industrial designs. The current trademark law, Law 57 of 1939, is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than USD 100 per seizure, not per infringement. Judgments and enforcement must be made separately in each of the 26 governorates.

Trade secrets: Egypt has no specific trade secrets legislation. Protection of commercially valuable information is possible through contractual agreement between parties. Breach of contractual terms of protection can be remedied in legal proceedings under either the civil or criminal code, depending on the severity of the damage caused.

Semiconductor chip layout design: there is no separate legislation protecting semiconductor chip layout design, although Egypt signed the Washington semiconductor convention.

9. Worker rights

a. Rights of Association: Egyptian workers may, but are not required to join trade unions. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most members (about 27 percent of the labor force) are employed by state-owned enterprises. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The ETUF, although semiautonomous, maintains close ties with the governing National Democratic Party. Despite the ETUF leadership assertion that it actively promotes worker interests, it generally avoids public challenges to government policies.

b. The Right to Organize and Bargain Collectively: the proposed new labor law which remains pending from the last legislative session provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, allowing few issues open to negotiation. Larger firms in the private sector generally adhere to such government-mandated standards.

c. Prohibition of Forced or Compulsory Labor: forced or compulsory labor is illegal and not practiced.

d. Minimum Age for Employment of Children: in March 1996, the Egyptian parliament adopted a new "comprehensive child law" drafted by the National Council for Childhood and Motherhood. The minimum age for employment was raised from 12 to 14. Provincial governors may authorize "seasonal work" for children between 12 and 14. Education is compulsory until age 15. An employee must be at least 15 to join a labor union. The Labor Law of 1981 states that children 14 to 15 may work six hours a day, but not after 7 p.m. and not in dangerous activities or activities requiring heavy work. Child workers must obtain medical certificates and work permits before they are employed. Recent estimates by the Egyptian government put the number of child laborers at 1.5 percent of the total working population of 18.3 million. Local non-governmental organizations put the number of children working at much higher, although verification is impossible. The majority of working children (78 percent) are employed on farms. Children also work as apprentices in auto and craft shops, in construction, and as domestics. Most are employed in the informal sector. The government has difficulty enforcing child labor laws due to a shortage of inspectors. Economic pressures, rural tradition, the inadequacy of the education system, and lack of government control in remote areas pose significant, but not insurmountable, barriers to addressing child labor issues in the near future.

Egypt is signatory to the 1997 Oslo Action Plan calling for the immediate removal of children from hazardous occupations, a national action plan to address child labor issues, and the eventual elimination of child labor.

e. Acceptable Conditions of Work: the government and public sector minimum wage is approximately USD 31 a month for a six-day, 42-hour workweek. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The average family can survive on a worker's base pay at the minimum wage rate. The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The ministry of manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,423
Total Manufacturing		435
Food & Kindred Products	(1)	
Chemicals & Allied Products	32	
Primary & Fabricated Metals	7	
Industrial Machinery and Equipment	13	
Electric & Electronic Equipment	(2)	
Transportation Equipment	(1)	
Other Manufacturing	(2)	
Wholesale Trade		-48
Banking		163
Finance/Insurance/Real Estate		0
Services		43
Other Industries		-60
TOTAL ALL INDUSTRIES		1,955

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,00 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.